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Research Update:

Sweden-Based Property Company Akademiska Hus 'AA/A-1+' Ratings Affirmed On Strong Financial Performance; Outlook Stable

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Overview

- In our base-case scenario through 2017, we expect Swedish property company Akademiska Hus will prudently monitor its capital expenditure program and increase debt only moderately.
- We are affirming our 'AA/A-1+' issuer credit and 'K-1' Nordic regional scale ratings on Akademiska Hus.
- The stable outlook reflects our expectation that Akademiska Hus will maintain strong financial performance and prudent debt and liquidity management through 2017.

Rating Action

On Feb. 25, 2015, Standard & Poor's Ratings Services affirmed its 'AA' long-term and 'A-1+' short-term issuer credit ratings on Swedish property company Akademiska Hus AB. The outlook is stable.

At the same time, we affirmed our 'K-1' Nordic regional scale rating on the company.

Rationale

The ratings on Akademiska Hus are based on our assessment of the company's stand-alone credit profile (SACP) at 'aa-', as well as on our opinion that there is a high likelihood that the company's owner, the Kingdom of Sweden (unsolicited AAA/Stable/A-1+), would provide timely and sufficient extraordinary support to Akademiska Hus in the event of financial distress.

In accordance with our criteria for government-related entities (GREs), our view of a high likelihood of extraordinary government support is based on our assessment of Akademiska Hus':

- Important role in the economy, in which the company has a recognized and dominant position in supplying the Swedish higher education sector with technically advanced and cost-efficient property. The Swedish government emphasizes higher education as a key priority for the state, and we see Akademiska Hus' operations as vital for the fulfillment of this policy.
- Very strong link with the Swedish government, the company's 100% owner. The Swedish government is actively involved in defining the company's strategy, appoints its board, and has a long-term commitment.

We consider that Akademiska Hus possesses a very strong enterprise profile and this underpins our assessment of the company's SACP. With a market share of 62%, Akademiska Hus is the dominant provider of premises for Sweden's higher education

sector. In total, 90% of the company's revenues stems from institutions that are linked to the Swedish government, which is ultimately responsible for paying the rent for public universities and colleges. Very low vacancy rates and long-term lease contracts provide Akademiska Hus with very stable and predictable cash flow.

Strong demand for premises in key university cities such as Uppsala and Stockholm, where Akademiska Hus has well-established relationships with higher education institutions, has resulted in an ambitious investment portfolio. Over the next three years, we expect Akademiska Hus' capital expenditures to average about Swedish krona (SEK) 3.5 billion (€365 million) yearly. We consider Akademiska Hus' underlying cash flow to be robust and expect the company to be able to finance a significant part of these investments through operating cash flow. We expect a portion to be debt financed, increasing Akademiska Hus' ratio of net debt to net debt and equity to 40% as of year-end 2017, up from 36% at year-end 2014. However, the company's current moderate leverage, together with strong EBITDA interest coverage, signals ample debt capacity.

Currently, due to demographic conditions, the number of applications to Swedish higher education are high. This is particularly true in the established university towns, which have seen enrollment increase steadily in recent years. However, demographic trends point to a medium-term decline in the 19-23 age group that will likely lead to a smaller number of students starting higher education. This could lead to a general decrease in demand for premises. However, since we expect the main university cities, where Akademiska Hus generates thmost of its business, will be able to attract steady numbers of students, we do not view the prospective overall decline as a major concern. Moreover, we anticipate increasing demand for Akademiska Hus' research facilities over the next few years.

Liquidity

We consider Akademiska Hus' liquidity to be adequate. The company's liquidity sources amount to about 70% of liquidity uses. However, we acknowledge Akademiska Hus' strong market access in assessing its overall liquidity position.

In terms of liquidity sources, Akademiska Hus has available committed bank facilities of SEK2.0 billion. In addition, the company has SEK1.1 billion in uncommitted credit facilities with banks. Although the company has never experienced any difficulty in drawing on these facilities, we do not factor them into our liquidity analysis.

In terms of liquidity uses, SEK6.9 billion of Akademiska Hus' total loan portfolio matures over the coming 12 months. In addition, we calculate that interest expense and capital spending of SEK4.2 billion add to Akademiska Hus' liquidity needs over the next 12 months.

We also estimate that Akademiska Hus benefits from stable and predictable revenue patterns, which are seasonal in nature. The company receives about SEK1.6 billion in rental revenues (including value-added tax) from its tenants every quarter. To

reduce the refinancing risk in its funding portfolio, Akademiska Hus matches redemptions on its short-term debt to coincide with the inflow of rental revenues.

Outlook

The stable outlook reflects our expectation that Akademiska Hus will maintain strong financial performance and prudent debt and liquidity management through 2017, exercising control of capital expenditures to increase debt only moderately. It also reflects our anticipation that Sweden will remain the sole owner of Akademiska Hus over the next few years.

The ratings could come under pressure if Akademiska Hus' link with, or role for, the government of Sweden were to decline, or if our SACP assessment weakened. A materially larger-than-expected increase in leverage, triggered by a substantial fall in profitability or weakened liquidity, could prompt us to revise down our SACP assessment.

Conversely, an upward revision of our SACP assessment could trigger an upgrade of Akademiska Hus. Significantly improved profitability, together with higher revenue growth, could provide positive momentum to SACP assessment. We could also consider an upgrade if we revised up our view of Akademiska Hus' role for the Swedish government.

Related Criteria And Research

Related Criteria

- Criteria - Governments - General: Methodology For Rating Public And Nonprofit Social Housing Providers - December 17, 2014
- General Criteria: Standard & Poor's National And Regional Scale Mapping Tables - September 30, 2014
- General Criteria: National And Regional Scale Credit Ratings - September 22, 2014
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - December 09, 2010
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating - October 01, 2010

Ratings List

	Ratings	
	To	From
Akademiska Hus AB		
Issuer credit rating		
Foreign and Local Currency	AA/Stable/A-1+	AA/Stable/A-1+
Nordic Regional Scale	--/--/K-1	--/--/K-1
Senior Unsecured		

	Ratings	
	To	From
Ratings List Continued...		
Foreign Currency	AA	AA
Local Currency	AA	AA
Short-Term Debt		
Foreign Currency	A-1+	A-1+
Commercial Paper		
Foreign Currency	A-1+	A-1+
Local Currency	A-1+	A-1+

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